

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 SS-15 NSC-05 AGRE-00
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FM USLO PEKING
TO SECSTATE WASHDC 0598
INFO AMCONSUL HONG KONG
AMEMBASSY TAIPEI
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 PEKING 1233

E.O. 11652: GDS
TAGS: EEWHT US CH
SUBJ: THE SPRING CANTON FAIR: EARLY TRENDS

1. SUMMARY. BY THE TENTH DAY OF THE FAIR, CHINESE OFFICIALS WERE ADMITTING THAT THE NUMBER OF VISITORS WAS DOWN COMPARED WITH PREVIOUS SPRING FAIRS. THEY WERE NOT YET ADMITTING THAT BUSINESS WAS ALSO DOWN, BUT THIS WAS THE CONSENSUS OF EXPERIENCED OBSERVERS. TEXTILES, NATIVE PRODUCE, ARTS AND CRAFTS AND LIGHT INDUSTRY WERE THE MAIN CORPORATIONS DOING BUSINESS WITH AMERICANS, AS IS TRADITIONALLY THE CASE. SOME \$10 MILLION IN BUSINESS, ALMOST ENTIRELY IMPORTING, WAS KNOWN TO HAVE BEEN DONE BY AMERICANS IN THE FIRST TEN DAYS. GENERALLY SPEAKING, PRICES SHOWED LITTLE OR NO INCREASE OVER PREVIOUS FAIRS, PERHAPS INDICATING THE SOFTNESS OF WORLDWIDE MARKETS FOR CHINESE GOODS. SHORTAGES, SOMETIMES COMBINED WITH SUBSTANTIAL PRICE INCREASES, WERE NOTED IN CAHSMERE, SOME BASKETWARE, RAW FEATHERS AND DOWN, GARLIC, CHILLIES, GINGER, CASHEWS AND SILK. MANY TRADERS REMARKED THAT CHINESE CORPORATIONS WERE MANIFESTING

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A DRAMATICALLY IMPROVED ATTITUDE AND A REAL DESIRE TO RESOLVE PROBLEMS AND FACILITATE TRADE. THE CONTROVERSY OVER PRIVATE LABELS IN TEXTILES IS OVER, AS THE CHINESE HAVE BOWED TO IMPORTER DEMANDS. THE NATIVE PRODUCE, TEXTILES AND ARTS AND CRAFTS CORPORATIONS WERE INDICATING WILLINGNESS TO ENGAGE IN "BUY-BACK" SCHEMES WITH IMPORTERS. ONE US FIRM

ARRANGED A ROSIN-DMT "SWAP" THAT REQUIRED UNWANTED COOPERATION BETWEEN THE TWO CHINESE CORPORATIONS INVOLVED. END SUMMARY.

2. DURING THE FIRST WEEK OF THE CANTON FAIR, WHICH OPENED ON APRIL 15, IT BECAME CLEAR TO EXPERIENCED TRADERS THAT THE NUMBER OF BUSINESS VISITORS WAS DOWN, PERHAPS BY AS MUCH AS ONE-THIRD. BY THE SECOND WEEK, PRC OFFICIALS WERE ADMITTING A DECLINE BUT WERE REFUSING TO SUGGEST THAT THIS WOULD REDUCE TOTAL SALES DURING THE FAIR. THE DECLINE IN US VISITORS SEEMED TO INCLUDE BOTH "OLD FRIENDS" AND NEWCOMERS AND EXTEND TO ALL THE CORPORATIONS EXCEPT PERHPAS LIGHT INDUSTRY. A TEXTILE CORPORATION OFFICIALS TOLD USLO OFFICER THAT INVITATIONS HAD BEEN EXTENDED TO OVER 100 US FIRMS, BUT ONLY A FRACTION OF THIS NUMBER APPEARED DURING THE FIRST TEN DAYS. EUROPEAN BUSINESSMEN AND DIPLOMATS STATED THAT EEC COUNTRY ATTENDANCE WAS ALSO DOWN. ONLY THE JAPANESE WERE EXPECTING MORE VISITORS -- UP TO 3,250 FROM 3,000 AT THE PREVIOUS TWO FAIRS. OVERSEAS CHINESE WERE PRESENT IN THEIR USUALLY LARGE NUMBERS. IN INTERVIEWS GIVEN TO THE PRESS DURING THE FIRST WEEK, FAIR OFFICIALS STATED THAT CERTAIN QUANTITIES OF GOODS WERE BEING HELD IN RESERVE FOR LATE ARRIVALS TO THE FAIR. THIS LINE MAY HAVE BEEN INTENDED TO LURE BUYERS WHO HAD INITIALLY DECIDED

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AGAINST ATTENDING.

3. THE BULK OF US BUSINESS WAS CONCLUDED WITH THE NATIVE PRODUCE, TEXTILES, ARTS AND CRAFTS AND LIGHT INDUSTRY CORPORATIONS. MOST RAW FEATHERS AND DOWN AND DOWN GARMENTS BUYERS LEFT DURING THE FIRST WEEK COMPLAINING OF PROHIBITIVE PRICES FOR RAW PRODUCTS, BUT SOME BUSINESS WAS DONE IN DOWN GARMENTS AND BEDDING WHERE PRICES WERE UP TO A LESSER EXTENT. CASHMERE PRICES WERE HIGH AND QUANTITY VERY TIGHT COMPARED WITH PREVIOUS YEARS, A SITUATION WHICH ONE CHINESE NEGOTIATOR ATTRIBUTED TO INCREASED DOMESTIC CONSUMPTION. HIGH WORLD DEMAND AND INELASTIC SUPPLY WERE PROBABLY MORE IMPORTANT, HOWEVER CARPET

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C O N F I D E N T I A L SECTION 2 OF 2 PEKING 1233

BUSINESS WAS VERY LIGHT. MOST TEXTILE BUYERS
EXPRESSED SATISFACTION WITH PRICES -- IN MANY CASES
UNCHANGED OR ONLY MODERATELY INCREASED -- FOR
COTTON AND WOOL PIECE GOODS AND GARMENTS. THE
VERY SHORT SUPPLY OF SILK FABRIC WAS DISAPPOINTING
TO MAJOR BUYERS. SEVERAL SIGNIFICANT COTTON
PIECE GOODS DEALS WERE UNDER DISCUSSION ON THE TENTH
DAY. US BUSINESS IN THE ARTS AND CRAFTS AND LIGHT
INDUSTRY SEEMED FAIRLY GOOD, WITH BASKETWARE,
CLOISONNE, EARTHENWARE, GLASSWARE AND PORCELAIN
AMONG THE MAJOR ITEMS. AS ALWAYS, CERTAIN FOODSTUFFS
WERE IN SHORT SUPPLY, NOTABLY GARLIC, CHILLIES, GINGER
AND CASHEWS. BY THE TENTH DAY USLO AND THE NCUSCT
HAD CONFIRMED US IMPORT BUSINESS TOTALING ABOUT
\$10 MILLION AND SOURCED AS FOLLOWS: NATIVE PRODUCE
\$4.5 MILLION; LIGHT INDUSTRY \$750,000; ARTS AND
CRAFTS \$650,000; TEXTILES \$550,000; ALL OTHER
\$3.5 MILLION. WE ESTIMATE A TOTAL FIGURE OF AROUND
\$15 MILLION, WHICH WOULD BE A SLOW START INDEED IN
COMPARISON WITH THE LAST SPRING FAIR.

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4. MANY TRADERS REMARKED THAT CHINESE CORPORATIONS
(OR THE MORE SOPHISTICATED BRANCHES OF THE
CORPORATIONS WITH WHICH THEY DEALT) WERE MANIFESTING
A DRAMATICALLY IMPROVED ATTITUDE TOWARD BUSINESS
AND A REAL DESIRE TO RESOLVE PROBLEMS AND FACILITATE
TRADE. TEXTILES, ALWAYS IN THE LEAD, WAS PRAISED
FOR HAVING BOWED TO IMPORTER DEMANDS TO ACCEPT

PRIVATE LABELS IN GARMENTS. NATIVE PRODUCE,
TEXTILES AND ARTS AND CRAFTS EITHER VOLUNTEERED
OR ANSWERED AFFIRMAIVELY WHEN ASKED THAT THEY
WOULD BE WILLING TO ENTER INTO "BUY-BACK"
ARRANGEMENTS WITH IMPORTERS WHEREIN THE IMPORTER
WOULD SELL RAW MATERIALS TO THE CORPORATION FOR
PROCESSING AND THEN BUY THEM BACK. (THIS SUBJECT
WILL BE TREATED IN SEPTEL.) ANOTHER DEPARTURE WAS
THE AGREEMENT BETWEEN HERCULES AND THE NATIVE PRODUCE
AND CHEMICALS CORPORATIONS ACCORDING TO WHICH HERCULES
WILL IMPORT ROSIN INTO ANTWERP AND "SWAP" DMT,
WHICH WILL BE CARRIED BACK ON THE SAME SHIP. BOTH
CORPORATIONS SIGNED THE CONTRACT, AN UNWANTED DISPLAY
OF COOPERATION BETWEEN FTC'S.

5. COMMENT: IT IS FAR TOO EARLY TO SUGGEST THAT A
NEW DAY HAS DAWNED IN THE CHINA TRADE. NO "BUY-BACK"
DEALS ARE KNOWN TO HAVE BEEN CONCLUDED YET. ALSO,
MANY OF THE OLD PROBLEMS OF LATE DELIVERY, POOR PACK-
AGING, BUREACURATIC INERTIA, ETC., THAT HAVE LONG PLAGUED
THE TRADE WERE VEXING BUYERS AT THE FAIR.
IT IS LIKELY THAT THE COMBINATION OF THESE OLD
PROBLEMS AND SOFTNESS IN WORLD MARKETS FOR CHINESE
GOODS WAS THE MAIN REASON FOR THE DROP IN ATTENDANCE.
THE EASIER AVAILABILITY OF NON-FAIR VISAS HAS APPARENTLY
ELIMINATED THE TORIST ELEMENT ATTENDING THE FAIR.

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